BIZCOMMUNITY

Franchise survey results show growth, but uncertainty

The latest franchise survey, launched last week by the Franchise Association of South Africa (FASA), shows growth in the franchise sector despite challenging economic conditions, but optimism about continuing growth has dropped from 92% to 78%.

©gajus via 123RF

“As a sector, we are doing great things in a tight economy,” says Tony Da Fonseca, FASA’s chairman. “Tracking our success and looking for areas that need improving is part of the entrepreneurial nature that sets us apart as franchisors and franchisees.

“As an industry association and given the higher risks in starting a business in such a tight economy, we also have to protect prospective franchisee investors from unethical operators and caution them to do thorough investigations into the franchise companies they are considering buying into. They should make sure that franchisors are members of FASA, which offers a certain measure of peace-of-mind given the strict scrutiny franchisors voluntarily submit themselves to.”

The survey, sponsored by Sanlam and undertaken by Research IQ, picks up the following trends.

Fast foods top sales

• The estimated turnover for the franchise market is R587 billion, which is 13.3% of the South African GDP.

• The largest franchise system is the fast foods and restaurant category (25%). The retail sector at 15% is the next biggest, followed by the building, office and home services sector at 13%. Similar in size are childcare, education and training and automotive products and services (9% each), and health, beauty and body culture at 8%. The other categories are 5% and smaller.

• The highest proportion of turnover generated is by the fast food and restaurants sector (29%), which is not surprising given that it is the largest sector. Three sectors share a further 43% of the estimated turnover in similar proportions – building, office and home services, retailing and business-to-business services.

• South Africa has over 845 franchised systems, as per the FASA website. According to the study, there are 40 528 stores, 85% of which are owned by franchisees, compared with 95% a year ago. There is an apparent move towards company-owned stores and joint ventures (15% from 5% a year ago).

• In 2017, 71% of the franchisors interviewed claimed that they had opened 2,789 businesses, 25% of which were fast foods and restaurants and 26% of which were in retailing; 16% were in the health, body and beauty culture sector. An estimated 105 businesses were closed down, resulting in a nett gain of 2,184 stores, 26% of which were each in fast foods and restaurants and retailing and 19% in the health, body and beauty culture sector.

Significant employer

• The employee count was pegged at 343,319, with the retailing sector being the biggest employer. Sixty-five percent of employees are black, 24% white, 6% coloured and 5% Indian. The number of black employees has increased by 8%.

• In total, some 20,000 people are employed by franchisors, while 323 592 are employed by franchisees. These figures include both management and staff.

• Ownership by previously disadvantaged individuals (PDI) for 2017 was given at 17%, similar to the 18% mentioned for 2016. There appears to be a slight downward trend in terms of PDI ownership since the 2015 survey, which may be because of the changes to the BBBEE Act of 2013. Categories such as childcare, education and training, personal services, fast foods and restaurants and building, office and home services are above average in this regard. Approximately half the sample (56%) did not have any PDI ownership in their businesses at all.

• When it comes to business ownership by women, the average percentage ownership is 25%. The sectors with the highest incidence of female ownership are the health, beauty and body culture and the childcare, education and training sectors.

Confidence waning

• Most franchisors (78%) are optimistic about future growth in their businesses. Although this is a positive figure, it has dropped significantly in the last year from 92%. There is an increase in those who are uncertain about the future and those who believe their turnovers will not change.

• The number of franchisors, who believe that it takes more than a year for a new franchisee to break even, has increased from 26% to 40%. A year ago, 73% of franchisors estimated that it would take less than a year for a new business to break even.

• Two in three franchisors claim to have been in business for more than ten years and a further 17% for between 6 and 10 years. The longevity of these businesses supports the success of franchising and supports the mitigation of risk when buying into a franchise.

• The last year has seen an increasing number of franchisors feeling that their businesses were at success (achieving and nourishing) stage. The next biggest category is the mature (control and profit) stage, which remained stable. There is a decline in the number of businesses that are described as being at the ambitious stage (expanding, taking a risk), with some of these businesses moving into the success stage.

International expansion

• Thirty-one percent of the franchisors interviewed claimed to have stores outside of South Africa. Most of these stores are to be found in the neighbouring countries of Namibia and Botswana. Proximity to neighbouring countries, in comparison to countries further afield in East or West Africa, make them more popular choices for expanding outside of South Africa.

• A relatively small proportion of franchisors (one in eight) claimed to be represented outside of Africa. One in eight franchises claimed to be an international brand.

• Fifty-nine percent of franchisors have business units/stores in shopping centres/malls and 62% have them situated in high streets, where most passing trade occurs. A quarter of the franchised outlets are operated from a home base or in an industrial area. Significant increases in the number of businesses on high streets (from 54% to 62%), and in industrial areas have occurred (from 17% to 23%). The move to the high streets is supported in the Franchisee survey.

Challenges

The main challenges facing franchisors remains finding the right person – in terms of finding the right franchisee with the right skills sets and the right staff. Other critical issues are having outlets in the right location, the poor economy, and financing for franchisees.

Business planning

Sanlam tracks the continuity and planning provisions that franchisors and franchisees make as part of their business strategy.

“It is encouraging to note,” says Kobus Engelbrecht, marketing head: Sanlam Business Market, “that the majority of franchise owners (95%) claim to have an investment portfolio largely comprising retirement annuities and property but a bit concerning that the number of franchise owners claiming to have some form of continuity planning has declined in the past three years. However, confidence in their business choice and the immediate future is reflected in the fact that selling their franchise within the next 12 months is not on the cards for 97% of franchise owners.”

SME retailers must adapt to survive

19 Jul 2017

“Despite a floundering economy, the franchising industry continues to make a healthy contribution to the South African GDP, a fact that is often overlooked by both the public and private sector,” concludes Vera Valasis, FASA’s executive director. “Benchmarking where we stand on the world franchise stage puts South Africa 36th in a list of 181 countries – between Singapore, Malaysia, Ireland and Pakistan in 34th, 35th, 37th and 38th place respectively – a position we can be proud of.”

The full FASA/Sanlam Franchisor & Franchisee Surveys can be accessed on the [FASA website](#).